

Office of the State Auditor

Division of State Audit

North Dakota Highway Patrol

Audit Report for the
Two-Year Period Ended June 30, 2006
Client Code 504

Robert R. Peterson
State Auditor



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Transmittal Letter

March 16, 2007

The Honorable John Hoeven, Governor
Members of the North Dakota Legislative Assembly
Colonel Bryan Klipfel, Superintendent, North Dakota Highway Patrol

We are pleased to submit this audit of the North Dakota Highway Patrol for the two-year period ended June 30, 2006. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Michael W. Schmitcke, CPA. Richard Fuher, CPA, and Angela Sabot were the staff auditors. Cindi Pedersen, CPA, was the audit supervisor. Inquiries or comments relating to this audit may be directed to the audit supervisor by calling (701) 328-4743. We wish to express our appreciation to Superintendent Klipfel and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson
State Auditor

Executive Summary

INTRODUCTION

The North Dakota Highway Patrol was established to enforce the provisions of the laws of the state of North Dakota relating to the protection and use of the highways in the state and the operation of motor and other vehicles upon such highways. The North Dakota Highway Patrol shall patrol the highways and cooperate with sheriffs and police to enforce the laws regulating the operation of vehicles and the use of the state's highways.

RESPONSES TO LAFRC AUDIT QUESTIONS

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

1. What type of opinion was issued on the financial statements?

Financial statements were not prepared by the North Dakota Highway Patrol in accordance with generally accepted accounting standards so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unqualified opinion was issued.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Other than our findings addressing "fee collections" (see page 21); "inadequate blanket bond coverage" (see page 22); and "maintenance of fixed asset records" (see page 23); the North Dakota Highway Patrol was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

3. Was internal control adequate and functioning effectively?

Other than our findings addressing the "computer access control weakness" (see page 15); "purchase card controls" (see page 16); "journal voucher approval" (see page 17); and "payroll controls" (see page 18); we determined internal control was adequate.

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

Other than our recommendations noted on pages 25–32, there were no indications of lack of efficiency in financial operations and management of the North Dakota Highway Patrol.

5. *Has action been taken on findings and recommendations included in prior audit reports?*

Other than our recommendations noted on pages 33–34, the North Dakota Highway Patrol has implemented all recommendations included in the prior audit report.

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

Yes, a management letter was issued and is included on page 35 of this report, along with management's response.

LAFRC AUDIT COMMUNICATIONS

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The North Dakota Highway Patrol's financial statements do not include any significant accounting estimates.

3. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

5. *Identify any serious difficulties encountered in performing the audit.*

None.

6. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance, Human Resource Management System (HRMS), Daily Activity System, Fixed Assets Tracking System, and Receipts System are high-risk information technology systems critical to the North Dakota Highway Patrol.

Background Information

The North Dakota Highway Patrol currently employs sworn and civilian employees to provide service to all citizens and to educate towards safety, voluntary compliance, and a better quality of life. They continue to maintain the highest standards for selection and training of their employees to earn the public's trust, respect, and confidence. By working together with the public, they strive to keep North Dakota one of the safest states in the nation.

The North Dakota Highway Patrol is headed by Colonel Bryan Klipfel, Superintendent, who is appointed by the Governor. The Superintendent shall enforce the provisions of the laws of this state relating to the protection and use of the highways in the state of North Dakota, and the operation of motor and other vehicles on such highways. The Superintendent shall appoint all patrolmen and the assistant superintendent who constitute the North Dakota Highway Patrol.

The powers of the North Dakota Highway Patrol are outlined in North Dakota Century Code (NDCC) section 39-03-09. In addition to the powers noted in this section, the Superintendent may organize the North Dakota Highway Patrol into divisions and districts as he deems necessary. Currently, the organizational structure consists of eight districts: Dickinson, Williston, Minot, Devils Lake, Bismarck, Jamestown, Grand Forks, and Fargo. Each of these districts is headed by a district commander. The Superintendent is also responsible for the operation, maintenance, and administration of the Law Enforcement Training Academy (LETA).

State Highway Patrol Primary Divisions:

- Administration
 - Field Operations
 - Law Enforcement Training Academy.
-

The North Dakota Highway Patrol is comprised of three primary divisions: Administration; Field Operations; and the LETA. The responsibility of the Administration Division is to provide administrative services to all departmental programs and activities, including accounting, budgeting, data processing, and personnel management. The Field Operations Division's responsibilities are to reduce fatalities, injuries, and economic loss by containing traffic accident rates. The LETA Division's responsibility is to provide the North Dakota Highway Patrol officers and other state and local law enforcement peace officers with the highest training and qualifications possible.

More information about the agency can be obtained from the North Dakota Highway Patrol's web page at:

<http://www.nd.gov/ndhp/>.

Audit Objectives, Scope, And Methodology

Audit Objectives

The objectives of this audit of the North Dakota Highway Patrol for the two-year period ended June 30, 2006 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the most important areas of the North Dakota Highway Patrol's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the North Dakota Highway Patrol and are they in compliance with these laws?
3. Are there areas of the North Dakota Highway Patrol's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the North Dakota Highway Patrol for the two-year period ended June 30, 2006 was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. To meet the objectives outlined above, we:

Audit Methodology

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and reviewed management's discussion and analysis of the financial statements.
- Performed detailed analytical procedures for expenditures and receipts.
- Tested samples of expenditures, journal vouchers, and correcting entries.
- Reviewed prior year audit workpapers.
- Interviewed appropriate agency personnel.
- Reviewed the North Dakota Highway Patrol's written plans and applicable manuals.
- Observed the North Dakota Highway Patrol's processes and procedures.
- Reviewed North Dakota Century Code chapter 39-03, 2003 Session Laws, and 2005 Session Laws.
- Conducted a review of the Fixed Assets Tracking System, Daily Activity System, and Receipts System.

Management's Discussion And Analysis

The accompanying financial statements have been prepared to present the North Dakota Highway Patrol's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

The following management discussion and analysis was prepared by North Dakota Highway Patrol's management. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of this supplementary information to ensure it does not conflict with the knowledge we gained as part of our audit.

For the two-year period June 30, 2006, operations of the North Dakota Highway Patrol were primarily supported by appropriations from the state's general fund and the highway tax distribution fund. This is supplemented by federal funding.

FINANCIAL SUMMARY

Revenues and other sources consisted primarily of transfers in, license and permit fees, and federal funds. Other revenues during the audited period include sales and use taxes and miscellaneous revenue. The transfers in (both state and federal) were from the Department of Transportation, the Department of Human Services, and the Department of Emergency Services. Total revenues and transfers in were \$8,429,090 for the fiscal year ended June 30, 2006 as compared to \$11,943,651 for the fiscal year ended June 30, 2005. The significant decrease was primarily due to transfers in from the Highway Tax Distribution Fund. The variance in the Highway Tax Distribution Fund transfers occurred because by arrangement with the Office of the State Treasurer the transfers did not begin until the middle of the biennium and so the vast majority of the 2003-05 biennium funds were received in fiscal 2005. The majority of the 2005-07 biennium funds will be received in fiscal 2007 for the same reason.

Total expenditures for the North Dakota Highway Patrol were \$15,468,924 for the year ended June 30, 2006 as compared to \$16,748,458 for the prior year. The decrease in total expenditures for the audited period reflects a significant decrease in equipment expenditures. All other expenditures remained fairly constant.

Strategic Plan

All Highway Patrol employees were asked to provide input on our strategic plan which is in effect from 2006-2010. The following is an excerpt from the plan.

Vision

Public safety through quality service.

Mission

The mission of the Highway Patrol is to make a difference every day by providing high quality law enforcement services to keep North Dakota safe and secure.

Values

- Loyalty
- Integrity
- Commitment
- Diversity/Respect
- Professionalism
- Accountability

Goals

- Goal 1 – Public Safety on Highways
- Goal 2 – Provide a Secure Environment for All Citizens
- Goal 3 – Enhance Employee Welfare
- Goal 4 – Enhance Relationships (Stakeholders, Public, etc)

Programs and Projects

The following are examples of some of the Highway Patrol's program areas and projects.

Mobile Data Technology

The Highway Patrol continues to encourage and maximize the use of information technology to assist in officer safety and efficiency. To that end the Mobile Data Communications System is still being improved and expanded. As a result of the use of mobile data technology a significant reallocation of office time to road patrol hours continues to be achieved each fiscal year. This allows for the optimum use of the officers' time and salaries in serving the people of North Dakota.

Criminal Interdiction

As a result of increased use of illegal drugs in North Dakota, canine teams continue to be deployed. The Highway Patrol now has nine canine teams that specialize in tracking and in narcotics detection including methamphetamine. Drug-related arrests increased from 668 during calendar 2004 to 848 during calendar 2006 for an increase of 26.9%. In addition, the department joined forces with the Bureau of Criminal Investigation to form a Post Seizure Analysis Team (PSAT). The purpose of PSAT is to analyze previous drug arrests to try to find common denominators in the time and transportation of illegal drugs so officers can be scheduled effectively to combat illegal drug trafficking in North Dakota.

As the largest state law enforcement agency in North Dakota, the Highway Patrol is also involved in the Fusion Center. The Fusion Center provides training for local emergency workers and assists the Federal government in investigations that may involve domestic or international terrorism.

Accreditation

The North Dakota Highway Patrol was reaccredited for the sixth time in 2006. During a conference the Patrol was recognized for being a flagship agency and also received a Meritorious Accreditation Certificate for being involved in the accreditation process continuously for 15 or more years. The recognition for being a flagship agency is given to those agencies which have just gone through a successful on-site assessment and which have been reaccredited three or more times. The Highway Patrol was one of 12 agencies asked to make presentations to advise agencies interested in joining CALEA as well as agencies currently involved in the process as to how to succeed. The Meritorious Accreditation Certificate for 15 years of continuous participation speaks for itself; past and present superintendents realize the importance of being professional, of needing a self-assessment process to validate professionalism and to consider ways to improve the agency for future personnel who will wear the uniform.

Investigations

The Highway Patrol's primary focus is traffic safety. Part of the traffic safety function is investigating traffic crashes and determining when, why and how they occur. To assist troopers with the more complex traffic crash investigations, reconstructionists in each district have received additional training. The reconstructionists are available to assist all law enforcement officers in the state in the reconstruction of traffic crashes and forensic mapping of crime scenes. In 2006 our reconstructionists

completed 113 investigations where crashes were reconstructed for the department. Eight cases were reconstructed for other agencies, and three crimes scenes were forensically mapped.

In – Car Video

Each Highway Patrol trooper and sergeant is assigned a vehicle equipped with in-car video. In-car video is important in assisting with officer report writing and documentation of evidence. In-car video is also a good risk management tool to protect officers from alleged wrongdoing. Video is reviewed on complaints against the department. In 2006 only one complaint resulted in improper conduct; the rest were either unfounded or proper conduct was followed.

Training and LETA

The Highway Patrol manages and administers training conducted at the Law Enforcement Training Academy located on the Bismarck State College campus. It is the primary means in which law enforcement officers in the state are initially trained. Advanced training is offered in specialized areas such as management, advanced criminal interdiction, and accident investigation.

Financial Statements

Statement of Revenues and Expenditures

	June 30, 2006	June 30, 2005
<u>Revenues and Other Sources:</u>		
Licenses, Permits, and Fees	\$ 3,451,358	\$ 2,701,879
Federal Revenue	1,415,729	1,680,404
Sales and Use Tax	37,110	36,555
Miscellaneous Revenue	18,872	26,579
Transfers In	3,506,021	7,498,234
Total Revenues and Other Sources	\$ 8,429,090	\$ 11,943,651
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$ 11,028,248	\$ 10,530,875
Equipment Over \$5,000	243,519	916,515
Other Equipment Under \$5,000	171,861	737,780
IT Equipment Under \$5,000	38,067	259,238
Land and Buildings		60,760
Major Operating Expenditures:		
Travel	1,748,924	1,811,836
Professional Services	321,947	217,634
Extraordinary Repairs	300,167	75,254
Miscellaneous Supplies	206,390	272,820
IT – Data Processing	200,705	200,402
Repairs	150,294	125,015
Food and Clothing	126,776	175,454
Professional Supplies and Materials	125,940	93,453
Lease/Rent – Building	108,336	88,180
Bldg., Grounds, Vehicle Mtce. Supplies	85,700	108,504
IT – Communications	74,849	75,878
Utilities	65,223	59,270
Operating Fees	58,879	84,329
Insurance	39,900	61,318
Professional Development	36,799	115,467
IT – Software Supplies	34,392	252,151
Other Operating Expenditures	85,327	107,070
Grants	216,681	285,602
Transfers Out		33,653
Total Expenditures and Other Uses	\$ 15,468,924	\$ 16,748,458

Statement of Appropriations

For The Fiscal Year Ended June 30, 2006

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Administration	\$ 2,361,511		\$ 2,361,511	\$ 1,096,157	\$ 1,265,354
Field Operations	30,998,822		30,998,822	13,832,941	17,165,881
Training Academy	1,459,275		1,459,275	525,460	933,815
Totals	<u>\$ 34,819,608</u>		<u>\$ 34,819,608</u>	<u>\$ 15,454,558</u>	<u>\$ 19,365,050</u>
Expenditures by Source:					
General Fund	\$ 20,080,862		\$ 20,080,862	\$ 13,145,914	\$ 6,934,948
Other Funds	14,738,746		14,738,746	2,308,644	12,430,102
Totals	<u>\$ 34,819,608</u>		<u>\$ 34,819,608</u>	<u>\$ 15,454,558</u>	<u>\$ 19,365,050</u>

Statement of Appropriations

For The Biennium Ended June 30, 2005

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Administration	\$ 2,241,434	\$ (8,340)	\$ 2,233,094	\$ 2,166,108	\$ 66,986
Field Operations	30,434,831		30,434,831	27,390,447	3,044,384
Training Academy	1,016,344		1,016,344	990,065	26,279
Totals	<u>\$ 33,692,609</u>	<u>\$ (8,340)</u>	<u>\$ 33,684,269</u>	<u>\$ 30,546,620</u>	<u>\$ 3,137,649</u>
Expenditures by Source:					
General Fund	\$ 18,211,522	\$ (8,340)	\$ 18,203,182	\$ 17,938,546	\$ 264,636
Other Funds	15,481,087		15,481,087	12,608,074	2,873,013
Totals	<u>\$ 33,692,609</u>	<u>\$ (8,340)</u>	<u>\$ 33,684,269</u>	<u>\$ 30,546,620</u>	<u>\$ 3,137,649</u>

Appropriation Adjustments:

The decrease of \$8,340 for Administration was due to the consolidation of information technology functions authorized by Senate Bill 2015 sections 28 and 29 of the 2003 Legislative Session.

Internal Control

In our audit for the two-year period ended June 30, 2006, we identified the following areas of the North Dakota Highway Patrol's internal control as being the most important:

Internal Controls Subjected To Testing

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the computer-based Fixed Assets Tracking System, Daily Activities System, and Receipts System.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered significant. We concluded that internal control was not adequate noting certain matters involving internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the North Dakota Highway Patrol's operations or ability to record, process, summarize and report financial data consistent with the assertions of management in financial statements. Reportable conditions are described below. We also noted other matters involving internal control that we have reported to management of the North Dakota Highway Patrol in a separate letter dated March 16, 2007.

COMPUTER ACCESS CONTROL WEAKNESS

Finding 06-1

The security roles used by the North Dakota Highway Patrol had a design flaw which resulted in a significant internal control weakness. As a result, people with the role to approve expenditure transactions also had the ability to initiate the same transactions. Proper internal controls dictate that these two functions be separated. The Office of Management and Budget is responsible for these security roles. OMB has redefined these roles during our audit period so no recommendation will be made to the North Dakota Highway Patrol.

PURCHASE CARD CONTROLS

The North Dakota Highway Patrol uses a purchase card for purchases under \$2,500. The Office of Management and Budget (OMB) requires agencies to implement specific internal controls when utilizing the purchase card method of payment.

The North Dakota Highway Patrol has not implemented the following controls as required by OMB:

- Individual card holders are required to attach all receipts to their statement, reconcile their receipts to the statement, and sign off on the reconciliation;
- Individual purchase card statements must be reconciled to the agency wide purchase card statement by a non-card holder and the individual performing the reconciliation must sign off on the reconciliation; and
- An authorized approver should approve all purchase card expenditures.

Audit Recommendation and
Agency Response

Recommendation:

We recommend the North Dakota Highway Patrol ensure:

- Individual card holders attach all receipts to their statement, reconcile their receipts to the statement, and sign off on the reconciliation;
- Individual purchase card statements are reconciled by a non-card holder to the agency wide purchase card statement and signed by the individual that performed the reconciliation; and
- All purchase card expenditures are approved by an authorized approver.

North Dakota Highway Patrol Response:

Improvements to existing purchase card procedures have been made to ensure that purchase card holders attach all receipts to the monthly card statement and also to ensure that all receipts are reconciled to the card statement and that all monthly reconciliations are properly signed. A person who is not a cardholder reconciles all individual statements to the monthly statewide purchase card statement and also signs the statewide reconciliation. All purchase card expenses are being approved by an authorized signer.

Finding 06-3

JOURNAL VOUCHER APPROVAL

The North Dakota Highway Patrol is not maintaining adequate support for journal vouchers (JVs) processed in the PeopleSoft general ledger and support is not being attached to the JVs when being submitted for approval.

As the approver does not have adequate support they are unable to determine if the correct amounts are included and being deposited into the proper fund. Even though the approver signed off on the JV we did not consider this proper approval as no support was reviewed prior to approval.

Recommendation:

We recommend the North Dakota Highway Patrol ensure that journal vouchers processed in the PeopleSoft general ledger are adequately supported and properly approved.

North Dakota Highway Patrol Response:

Journal vouchers are now required to have all documentation attached at the time journal vouchers are submitted for approval by an authorized signer.

PAYROLL CONTROLS

A review of the North Dakota Highway Patrol's payroll procedures identified four significant weaknesses as follows:

- Payroll Action Form (PAF) changes are being sent to the North Dakota Highway Patrol from the Office of Management and Budget (OMB) through the interoffice mail system. These forms are being received by an individual at the North Dakota Highway Patrol who has access to make PAF changes;
- Regular hours for salaried and hourly employees are not being approved;
- Timesheets prepared by hourly employees are being discarded after being entered into PeopleSoft by an administrative assistant; and
- Payroll checks are being distributed by an individual who has access to process payroll.

Strong internal controls dictate that PAF forms be submitted to and approved by an individual who does not have access to make PAF changes, all hours worked by employees be approved, employee timesheets be retained in accordance with the agency's records retention policy, and payroll checks be distributed by an individual who does not have access to process payroll.

Recommendation:

We recommend the North Dakota Highway Patrol implement procedures to ensure:

- PAF forms be submitted to and approved by an individual who does not have access to make PAF changes;
- All hours worked by employees are approved;
- Timesheets for hourly employees are maintained in accordance with the agency's records retention policy; and
- Payroll checks are distributed by an individual who does not have access to process payroll.

North Dakota Highway Patrol Response:

Payroll PAF forms are now required to be submitted to and approved by a person who cannot make changes to PAF forms. Work hours are being approved by supervisors and/or regional commanders and timesheets are being retained within department records retention guidelines. Additional documentation indicating work hours are being performed includes police radio logs and officer electronic records that are generated during each shift (i.e. field contacts, citations, crash reports and other incident reports). In-car video equipment also records activities during each shift and these records are reviewed by field sergeants and commanders. Payroll checks are distributed by an employee who does not have access to the payroll records.

Compliance With Legislative Intent

In our audit for the two-year period ended June 30, 2006, we identified and tested the North Dakota Highway Patrol's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

Legislative Intent Subjected To Testing

- Salaries of the superintendent, assistant superintendent, and patrolmen are proper (NDCC section 39-03-07).
- Application of proper statutory fees and penalties relating to revenue (NDCC sections 39-12-02, 39-12-04, 39-12-14.1, 39-12-20, and 39-25-05) and (NDAC section 38-06-03-01).
- Payments made to patrol officers (2003 Session Law – House Bill 1011).
- Payments made to patrol officers (2005 Session Law – Senate Bill 2011).
- Transfer made from State Highway Tax Distribution Fund (2003 Session Law – House Bill 1011).
- Transfer made from State Highway Tax Distribution Fund (2005 Session Law – Senate Bill 2011).
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Proper use of outside bank accounts and petty cash funds.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

The results of our tests disclosed three instances of noncompliance that are required to be reported under *Government Auditing Standards*. These findings are described below. Other than those findings, we concluded there was compliance with the legislative intent identified above. We also noted certain immaterial instances of noncompliance that we have reported to management of the North Dakota Highway Patrol in a separate letter dated March 16, 2007.

FEE COLLECTIONS

The North Dakota Highway Patrol collects size and weight permits for the Motor Vehicle Division of the Department of Transportation (DOT), fuel taxes for the North Dakota Tax Department, and escort fees which are deposited into the general fund. North Dakota Century Code (NDCC) and North Dakota Administrative Code (NDAC) determine the fee amounts and where the funds are to be deposited.

We reviewed 54 unusual fee amounts collected by the North Dakota Highway Patrol and determined that 11 fees were collected for the wrong amount, 13 fees were coded incorrectly in the North Dakota Highway Patrol's Receipt System, and 3 fees were deposited into the wrong fund. A factor contributing to the errors is that not all the fees charged by the North Dakota Highway Patrol are listed on the receipt. By listing the fees to be charged on the receipt the North Dakota Highway Patrol officer would be able to use the receipt as a guide to determine the correct fee amount and the individual paying the fee would be able to easily determine that they were not charged the correct amount.

As part of the review above we also identified one transaction where \$43,970 was deposited into the General Fund that should have been deposited into DOT's State Highway Fund.

Audit Recommendation and Agency Response

Recommendation:

We recommend the North Dakota Highway Patrol ensure:

- Proper fee amounts are collected in accordance with NDCC and NDAC;
- Fees are properly coded into the Receipt System;
- Fees for the various fee categories are printed on the receipt; and
- Amounts are deposited into the proper fund in accordance with NDCC and NDAC.

North Dakota Highway Patrol Response:

Steps have been taken to ensure that proper fee amounts are collected in accordance with NDCC and NDAC and that such fees are correctly coded into the department receipt system. The department is in the process of preparing a document listing all fee categories to be made available to both our officers and permit users. This will better enable the Highway Patrol to ensure that all fees are deposited into the proper funds as specified by NDCC and NDAC.

Finding 06-6

INADEQUATE BLANKET BOND COVERAGE

The North Dakota Highway Patrol did not have blanket bond coverage from January 1, 2006 through the remainder of the audit period.

Senate Bill 2043, Section 14, of the 2005 Session Laws now requires all agencies and political subdivisions to apply for blanket bond coverage once per biennium or if a change in coverage is requested. Prior to the new law, agencies blanket bond coverage simply rolled forward if no changes were requested by the agency or political subdivision. As the North Dakota Highway Patrol was not aware of this new law, no application was submitted to the Insurance Department and as a result their blanket bond coverage lapsed on January 1, 2006.

Audit Recommendation
and Agency Response

Recommendation:

We recommend the North Dakota Highway Patrol obtain blanket bond coverage.

North Dakota Highway Patrol Response:

Bond coverage under the State Fire And Tornado Fund was obtained as of March 7, 2007.

MAINTENANCE OF FIXED ASSET RECORDS

The procedures used by the North Dakota Highway Patrol to ensure the proper fixed assets and balances are recorded on PeopleSoft are inadequate.

A review of the fixed assets and accounting data recorded on PeopleSoft, which have a value of greater than \$5,000, indicated numerous instances where the wrong amount was recorded or not recorded at all. See the results of our review below:

- Two items totaling \$12,231 were listed in the fixed asset records on PeopleSoft that had been surplused and no longer owned by the North Dakota Highway Patrol;
- Numerous items totaling at least \$87,030, which individually had a value greater than \$5,000, should have been capitalized and were not included in the fixed assets records on PeopleSoft;
- A television and a media receiver were recorded on PeopleSoft at \$7,699 per item, but according to the invoice the items were purchased together with a total cost of \$7,699;
- Nine items recorded in the fixed asset records on PeopleSoft were incorrectly classified. Common classifications are buildings, land, equipment, and infrastructure; and
- The North Dakota Highway Patrol was unable to provide proper support for approximately \$877,000 worth of equipment recorded in the fixed asset records on PeopleSoft.

North Dakota Century Code (NDCC) 54-27-21 requires all agencies to capitalize all fixed assets having a value greater than \$5,000. Appendix A of the Office of Management and Budget's (OMB) Fiscal and Administrative Policy details how capitalized fixed assets should be classified.

Audit Recommendation
and Agency Response

Recommendation:

We recommend the North Dakota Highway Patrol maintain fixed asset records on PeopleSoft for fixed assets having a value greater than \$5,000 in accordance with NDCC 54-27-21 and Appendix A of OMB's Fiscal and Administrative Policy, and ensure these records are properly supported.

North Dakota Highway Patrol Response:

Procedures have been implemented to provide sufficient documentation for all capitalized items of \$5,000 and over in order to ensure that these items are properly recorded in the fixed asset inventory records and to remove all deletions from those records at the time of disposal.

Operations

Our audit of the North Dakota Highway Patrol identified the following areas of potential improvements to operations:

Operational
Improvement 06-1

IMPLEMENTATION OF THE PURCHASE CARD

Challenge:

The North Dakota Highway Patrol implemented the use of purchase cards (P-Cards) for making small dollar purchases. However, during our audit period they were only utilized to pay 104 transactions totaling \$13,120. Review of the agency's expenditures revealed that as many as 4,284 additional transactions totaling approximately \$1,003,000 were for items that could have been paid with a P-Card.

Noted Inefficiency:

Generally, small purchases make up a large percentage of purchasing transactions but only represent a small percentage of dollars spent. Therefore, reducing the administrative costs of processing these small dollar purchases is very important. The state P-Card program reduces the paperwork and administrative costs for small purchases.

Solution:

The North Dakota Highway Patrol should extend their use of the P-Card whenever making purchases up to \$2,500.

North Dakota Highway Patrol Response:

The number of employees with purchase cards has been increased to the level which includes all those who have the need to make purchases of sizable dollar amounts on a regular basis.

MAINTENANCE OF CLEARING ACCOUNTS

Challenge:

As of June 30, 2006 the North Dakota State Highway Patrol maintained 22 clearing accounts which were located around the state. These accounts are used for the deposit of funds collected by the Highway Patrol around the various parts of the state. Currently, on all but one account, manual checks are written on each of these accounts at least twice a month to transfer the funds from these clearing accounts to the Bank of North Dakota (BND). As part of this manual process, manual check registers are maintained for each of the accounts and at the end of the month bank reconciliations are completed for each account. One of the accounts is currently being electronically cleared through a process similar to that mentioned below.

Solution:

Based on phone interviews conducted with five of the banks utilized by the North Dakota Highway Patrol and overall industry practices, we developed the following recommendation:

Each of the clearing accounts should be cleared to the BND electronically through an electronic funds transfer or ACH once a month rather than writing multiple checks from each account. This would eliminate a significant amount of administrative duties and costs such as writing checks, having checks signed, preparing checks to be mailed, and postage. In addition, this process would also eliminate the need to keep check books for these accounts, thereby eliminating all risks associated with blank checks.

As part of this electronic process, all check registers should be maintained in an electronic format such as Excel. By having the registers in an electronic format the information in the registers can be more efficiently and effectively utilized. In addition, as checks will no longer be written from these accounts, the only activity in the register for each month would be the electronic transfer of funds from the account to the BND. As the activity in each account would be minimal, the month-end bank reconciliations would be simplified compared to the current reconciliation process.

North Dakota Highway Patrol Response:

The department is in the process of establishing procedures to electronically clear funds from local banks to the Bank of North Dakota on a monthly basis to eliminate the need to use manual checks and registers.

TIMING OF FEDERAL REIMBURSEMENT REQUESTS

Challenge:

The North Dakota Highway Patrol made 81 federal reimbursement requests for expenditures related to the Motor Carrier Safety Assistance Program (MCSAP) during the audit period.

A review of the North Dakota Highway Patrol's procedures for completing federal reimbursement requests identified numerous inefficiencies that delayed the federal reimbursement requests from being submitted to the Federal Government in a timely manner. Some of the inefficiencies include:

- not properly utilizing PeopleSoft accounting reports;
- making unnecessary adjustments to operating expenditures claimed; and
- making adjustments to payroll expenditures claimed due to incorrect payroll procedures adopted by the North Dakota Highway Patrol.

The effect of the delays noted above resulted in the state's general fund losing at least \$14,000 of interest revenue over the course of the audit period.

Solution:

We recommend the North Dakota Highway Patrol develop and implement procedures related to federal reimbursement claims made to ensure they are submitted to the Federal Government in a timely and efficient manner.

North Dakota Highway Patrol Response:

The PeopleSoft accounting reports are now being utilized more effectively to better enable the timely request of federal reimbursements. This will also eliminate the need for periodic adjustments to federal payroll expenses.

FEDERAL EXPENDITURES PAID WITH GENERAL FUNDS

Challenge:

The North Dakota Highway Patrol's processes and procedures used for ensuring that all allowable expenditures are charged to the Motor Carrier Safety Assistance Program (MCSAP) are not operating effectively.

A review of the North Dakota Highway Patrol's grant activity identified the following weaknesses:

- At least \$56,000 of administrative expenditures paid with general fund monies could have been claimed for reimbursement from the federal government and were not;
- \$156,000 of federal indirect expenditures claimed for reimbursement from the Federal Government were not properly recorded on PeopleSoft and as a result were charged to the North Dakota Highway Patrol's general fund inadvertently allowing federal fund balances to build; and
- \$680,000 of federal grant funds available to the agency for the MCSAP program had not been requested for use at the end of the grant period during the current audit period.

Solution:

The North Dakota Highway Patrol should implement policies and procedures to:

- Ensure all allowable expenditures are charged to the MCSAP program;
- Ensure federal indirect expenditures are properly recorded on PeopleSoft; and
- Adequately plan and budget for maximizing the use of MCSAP grant monies. The grant administrator, accountant, and budgeting personnel should re-evaluate the grants to determine which additional expenditures could be charged to the program in order to save state funds.

North Dakota Highway Patrol Response:

Steps have been taken to ensure that administrative salaries are included in the indirect cost pool and that indirect costs are properly recorded in the PeopleSoft accounting reports. The Highway Patrol continues to try to utilize federal MCSAP program funds to the maximum possible extent in line with current staffing levels and enforcement demands.

GRANT CLOSING PROCEDURES

Challenge:

The North Dakota Highway Patrol's processes and procedures used for ensuring that all old federal grants on PeopleSoft are properly closed are not operating effectively.

A review of the North Dakota Highway Patrol's grant activity identified the following weaknesses:

- Ten old federal grants continue to be reported on PeopleSoft that should be closed and in total contain approximately \$72,000 of cash that belongs in the general fund; and
- Current expenditures are being charged to old federal grants making it impossible to properly close the grants on PeopleSoft.

Solution:

The North Dakota Highway Patrol should perform a review of all grant activity recorded on PeopleSoft, close out all old federal grants, and transfer any cash balances remaining to the general fund.

The North Dakota Highway Patrol should implement policies and procedures to ensure current expenditures are being charged to the proper grant on PeopleSoft.

North Dakota Highway Patrol Response:

Procedures are in place for the transfer of federal grant cash balances to the general fund upon the expiration of grant periods.

FIXED ASSET TRACKING PROCEDURES

Challenge:

The North Dakota Highway Patrol maintains fixed asset records on PeopleSoft's Asset Management Module and on a stand-alone system called the Fixed Asset Tracking System (FATS). All fixed assets with a value of \$100 or greater are entered into FATS while only fixed assets with a value of \$5,000 or greater are recorded on PeopleSoft's Asset Management Module.

As the North Dakota Highway Patrol utilizes two separate systems to track and report fixed assets it is imperative that the information recorded on both systems is consistent.

The North Dakota Highway Patrol has failed to implement the following controls to ensure consistency between the two systems:

- Fixed assets reported in FATS should be reconciled to the fixed assets reported in PeopleSoft's Asset Management Module to ensure consistency; and
- The FATS system has the capability to export information into Excel which can be reviewed by the North Dakota Highway Patrol to determine if there are any errors or inconsistencies within the data entered.

Failure to implement these two key controls has resulted in a severely weakened internal control structure surrounding fixed assets that has caused numerous reporting errors and inefficiencies as listed below:

- Approximately \$10,000 worth of fixed assets were recorded in FATS and not on PeopleSoft;
- Approximately \$12,000 worth of fixed assets reported on PeopleSoft were disposed of according to FATS;
- Approximately \$29,000 worth of fixed assets were reported on PeopleSoft that were not reported on FATS;
- 1,397 items listed in FATS do not have values assigned;
- 343 items including 21 guns in the possession of the Highway Patrol were not scanned in to FATS during their annual physical inventory.
- 1,079 items that had been disposed were still included in the FATS inventory records which makes reporting and physical inventories more error prone and time consuming;

- Fixed assets are being recorded in PeopleSoft with different values than those being recorded in FATS;
- Improper asset classifications are being recorded on PeopleSoft, (i.e. buildings, infrastructure, equipment);
- Fixed asset locations within FATS are not being applied consistently, for example the North Dakota Highway Patrol had used 3 different names for the Headquarters office located in Bismarck which resulted in items not being accounted for during the completion of the annual physical inventory;
- Fixed asset items were assigned to individuals whose names were spelled numerous ways which again resulted in reporting errors;
- Fixed assets were assigned to the wrong location or individual in FATS; and
- Buildings recorded in PeopleSoft were not recorded in FATS.

Solution:

The North Dakota Highway Patrol must reconcile fixed asset records on PeopleSoft's Asset Management Module to FATS and on a regular basis review information recorded in FATS using Excel to ensure data recorded within the system is consistent and proper.

North Dakota Highway Patrol Response:

Procedures have been developed to reconcile the PeopleSoft fixed asset inventory records with the Highway Patrol FATS fixed assets inventory system.

Prior Recommendations Not Implemented

Prior recommendations have been implemented with the exception of the following:

Increased Usage of Purchase Cards

Background:

Operational
Improvement 04-1

The North Dakota Highway Patrol has implemented the use of purchase cards (P-Cards) for making small dollar purchases. However, during our audit period they only utilized it to pay 75 transactions totaling \$5,648. Review of the agency's expenditures reveals that as many as 1,889 additional transactions totaling approximately \$321,932 were for items that could have been paid with a P-Card. Generally, small purchases make up a large percentage of purchasing transactions but only represent a small percentage of dollars spent. Therefore, reducing the administrative costs of processing these small dollar purchases is very important. The state P-Card program was developed to reduce the paperwork and administrative costs associated with small purchases.

Recommendation:

The North Dakota Highway Patrol is encouraged to use the P-Card whenever making purchases up to \$2,500.

Status:

Not implemented, see page 25 for new recommendation.

Maintenance of Clearing Accounts

Background:

Operational
Improvement 04-2

As of June 30, 2004 the North Dakota Highway Patrol maintained 27 clearing accounts located around the state. These accounts are used for the deposit of funds collected by the North Dakota Highway Patrol around various parts of the state. Currently, the North Dakota Highway Patrol writes manual checks from each account at least twice a month to clear the accounts to the Bank of North Dakota (BND). Additionally, manual check registers are maintained for each account. Significant efficiencies could be realized by the North Dakota Highway Patrol by clearing all

accounts using an electronic funds transfer or ACH process through the BND and maintaining all check registers in an electronic format.

Recommendation:

We recommend the North Dakota Highway Patrol, through and electronic funds transfer or ACH, clear all accounts to the BND once a month and maintain electronic check registers to record all account activity.

Status:

Not implemented, see page 26 for new recommendation.

Maximizing Use of Federal Grant Funds

Operational
Improvement 04-4

Background:

The North Dakota Highway Patrol has not been spending all of the federal grant funds awarded to them. During the previous audit over one million dollars of the Motor Carrier Safety Assistance Program (MCSAP) grant funds available to the agency had not been requested for use.

Recommendation:

The North Dakota Highway Patrol should implement procedures to adequately plan and budget for maximum use of the MCSAP grant. The grant administrator, accountant, and budgeting personnel should re-evaluate the grant to determine which additional expenditures could be charged to the grant in order to save state funds.

Status:

Not implemented, see page 28 for new recommendation.

Management Letter (Informal Recommendations)

March 16, 2007

Colonel Bryan Klipfel
Superintendent
North Dakota Highway Patrol
State Capitol
600 E Boulevard Avenue
Bismarck, North Dakota 58505

Dear Colonel Bryan Klipfel:

We have performed an audit of the North Dakota Highway Patrol for the two-year period ended June 30, 2006, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota Highway Patrol's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status as non-reportable conditions.

The following present our informal recommendations.

CASH

Informal Recommendation 06-1:

We recommend the North Dakota Highway Patrol review all outside checking accounts and:

- Close out any inactive or unneeded accounts;

- Eliminated unnecessary bank service charges by maintaining the proper minimum balance in the outside checking accounts, receiving scanned images of checks written, and only maintain accounts at banks that do not charge a fee for having the account;
- Each month clear out all accounts down to \$0 or the minimum balance required by the bank for that account; and
- Ensure that either the actual checks or copies of the checks are received from the bank with the bank statements.

Informal Recommendation 06-2:

We recommend the North Dakota Highway Patrol close out the conference fund within 60 days of the end of the conference in accordance with OMB policy 211.

Informal Recommendation 06-3:

We recommend the North Dakota Highway Patrol properly prepare the grants receivable closing package.

ACCOUNTS PAYABLE/EXPENDITURES

Informal Recommendation 06-4:

We recommend the North Dakota Highway Patrol ensure that the individual responsible for approval in the Peoplesoft accounts payable ledger use the "worklist" link on the right top of the screen when approving vouchers.

Informal Recommendation 06-5:

We recommend the North Dakota Highway Patrol code expenditures using a PeopleSoft account code that is consistent with the nature of the expenditure and ensure expenditures are properly capitalized as required.

LEGISLATIVE INTENT

Informal Recommendation 06-6:

We recommend the North Dakota Highway Patrol ensure an individual independent of custodial or record-keeping responsibilities take the annual physical inventory of fixed assets and certify as to the correctness of the inventory.

Informal Recommendation 06-7:

We recommend the North Dakota Highway Patrol update North Dakota Administrative Code 38-06-03-01 and North Dakota Century Code 39-12-04, subsection 1, letter d, as to which fund fees charged under these sections are to be deposited into.

GENERAL PROGRAM

Informal Recommendation 06-8:

We recommend the Management of the North Dakota Highway Patrol take an active role in the development and monitoring of internal controls as well as ensure that adequate communication between the different divisions of the North Dakota Highway Patrol is occurring.

Management of the North Dakota Highway Patrol agreed with these recommendations.

I encourage you to call myself or an audit manager at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

Michael W. Schmitcke, CPA
Auditor in-charge